

## I. OVERVIEW

In compliance with Circular Letter No. 2017-29, dated May 02, 2017 and as duly issued by the Insurance Commission, Prudential Guarantee and Assurance, Inc. (“Prudential Guarantee”), one of the leading non-life insurance companies in the country, hereby adopts this Related-Party Transactions (RPT) Policy (“Policy”), with the aim of exercising appropriate oversight and implement effective control systems for managing said exposures, as these may potentially lead to abuses that are disadvantageous to Prudential Guarantee, its policyholders, claimants, creditors, fiduciary clients, and other stakeholders.

This Policy is made to ensure that RPT transactions are only undertaken on an arm’s length basis for the financial, commercial, and economic benefit of Prudential Guarantee.

## II. COVERAGE

In particular, this Policy shall:

- a. capture a broader spectrum of transactions, covering not only those that give rise to credit and/or counterparty risks but also those that could pose significant risk exposure or potential abuse to Prudential Guarantee and its stakeholders; and,
- b. cover the identification, prevention, and management of potential or actual conflicts of interest which may arise on the day-to-day operations of Prudential Guarantee.

## III. SCOPE AND EFFECTIVITY

- a. This Policy must be observed by all departments, branches, and extension offices of Prudential Guarantee.
- b. This Policy shall be effective immediately.

## IV. DEFINITION OF TERMS

For purposes of this Policy, the following terms are construed to be defined as such:

- a. **“Related Party” or “Related Parties”** – shall cover Prudential Guarantee’s subsidiaries, affiliates, and special purpose entities, if any, that Prudential Guarantee exerts direct/indirect control over or that exerts significant influence over Prudential Guarantee; its Board members; officers; stockholders and related interests; and their Close Family Members (as defined below), as well as Corresponding Persons in Affiliated Companies (as defined below). This shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of Prudential Guarantee; hence, is identified as a Related Party (as defined below).
- b. **“Close Family Members”** are persons related to Prudential Guarantee’s directors, officers, and stockholders (“DOS”) within the second degree of consanguinity or affinity, legitimate or common-law. These shall include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son-/daughter-in-law, brother-/sister-in-law, grandparent-in-law, and grandchild-in-law of Prudential Guarantee’s DOS.
- c. **“Corresponding Persons in Affiliated Companies”** are the DOS of the affiliated companies and their Close Family Members.

- d. “RPTs” are transactions or dealing with Related Parties of Prudential Guarantee, including its trust department, if any, regardless of whether or not a price is charged. These shall include, but not limited to the following:
- i. on-and off-balance sheet credit exposures and claims and write-offs;
  - ii. investments and/or subscriptions for debt/equity issuances;
  - iii. consulting, professional, agency and other service arrangements/contracts;
  - iv. purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements);
  - v. construction arrangements/contracts;
  - vi. lease arrangements/contracts;
  - vii. trading and derivative transactions;
  - viii. borrowings, commitments, fund transfers, and guarantees;
  - ix. sale, purchase, or supply of any goods or materials; and,
  - x. establishment of joint venture entities.

RPTs shall be interpreted broadly to include not only transactions that are entered into with Related Parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a Related Party.

## **V. RPT COMMITTEE**

- A. To implement all the rules and procedures imbued in this Policy, an RPT Committee is hereby established, with the primary responsibility of ensuring that transactions with Related Parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations.
- B. The RPT Committee shall be composed of at least three (3) Members of the Board of Directors, with all members being Independent Directors. The Chairman of the RPT Committee shall have both substantial insurance and accounting expertise.
- C. The RPT Committee shall be responsible to:
- a. Evaluate, on a continuous manner, all existing and various relations between and among businesses and counter parties to ensure that all Related Parties are continuously identified, RPTs are monitored, and subsequent changes in relationships shall be reflected in the relevant reports to the Board of Directors and regulators;
  - b. Evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms to such Related Parties than similar transactions with non-related parties under similar circumstances, and that no corporate or business resources of Prudential Guarantee are misappropriated to determine any potential reputational risk issues that may arise as a result of, or in connection with, the transactions.

In evaluating RPTs, the Committee shall take into account, among others, the following:

- i. The Related Party’s relationship to Prudential Guarantee and interest in the transactions;
- ii. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
- iii. The benefits to Prudential Guarantee of the proposed RPT;
- iv. The availability of other sources of comparable products or services; and,

- v. An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances.

The CI shall have in place an effective price discovery system and have exercised due diligence in determining a fair price for RPTs. All RPTs that are considered material based on Prudential Guarantee's internal policies shall be endorsed by the RPT Committee to the Board of Directors for approval.

- c. Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Prudential Guarantee's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure shall include information on the approach to managing material conflicts of interest that are inconsistent with such policies; and conflicts that could arise as a result of Prudential Guarantee's affiliation or transactions with other Related Parties.
- d. Report to the Board of Directors, on a regular basis, the status and aggregate exposures to each Related Party, as well as the total amount of exposures to all related parties.
- e. Ensure that transactions with Related Parties, including write-off of exposures, are subject to periodic independent review or audit process.
- f. Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures

## **VI. PROCEDURES IN ENSURING ARM'S LENGTH TERMS**

- A. RPTs shall be conducted in the regular course of business and not undertaken on more favorable economic terms (e.g. price, commissions, interest rates, fees, tenor, and collateral requirement) to such Related Parties than similar transactions with non-related parties under similar circumstances.
- B. There shall be an effective price discovery mechanism to ensure that transactions are engaged into at terms that promote the best interest of the Prudential Guarantee and its stakeholders. The price discovery mechanism may include, but not limited to, acquiring the services of an external expert, opening the transaction to a bidding process, or publication of available property for sale.

## **VII. CONFLICTS OF INTEREST**

- A. Conflict of interest is "*a situation in which a relevant employee, member of the Board, or a stockholder has a private or personal interest sufficient to influence, or appear to influence, the objective exercise of his or her official duties*" in connection with Prudential Guarantee's business.
- B. Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting Prudential Guarantee.

## **VIII. MATERIALITY THRESHOLDS AND EXCLUDED TRANSACTIONS**

Materiality threshold shall be set for each type of transaction and for each related party group, depending on the nature of business transaction or value impact that could result in business interruption, has business consequences or causes concern to Management such that it warrants escalation and notification to Management.

Materiality shall not only be based on the amount but on nature of transaction and risks involved which would lead to any of the following:

- a. Materially impair the quality of Prudential Guarantee's governance;
- b. Significantly increase the operational risks and
- c. Services provided involve significant customer impact, exchange or transfer of sensitive and confidential data.

Excluded transactions are those transactions that are frequent, operational in nature, and do not place Prudential Guarantee at risk or liability exposure.

#### **IX. INTERNAL LIMITS FOR INDIVIDUAL AND AGGREGATE EXPOSURES**

- A. In addition to existing prudential limits which shall be complied at all times, include internal limits or sub-limits for individual and aggregate exposures to a Related Party and for aggregate exposures to all Related Parties that are consistent with Prudential Guarantee's risk appetite, risk profile, and capital strength. The internally set limits shall be tied in with Prudential Guarantee's internal definition of capital.
- B. Breaches in limits shall be reported to the Board with the decision of the Board to accept exposure or to take steps to address the breaches as may be necessary, duly documented in the minutes of meetings.

#### **X. PROACTIVE INFORMATION MECHANISMS**

The provisions of Prudential Guarantee's Anti-Fraud and Proactive Information Policy shall apply in any and all instances covering the reporting of RPTs that have not been subject, whether intentionally or unintentionally, to the rules and procedures enumerated in this Policy.

#### **XI. RESTITUTION OF LOSSES AND OTHER REMEDIES FOR ABUSIVE RPTs**

This Policy shall comply with the applicable regulatory requirements. These standards must be applied, in all dealings with employees, customers, shareholders, suppliers, competitors, the wider community, and the environment.

Officers, directors, and employees who have been remiss in their duties in handling RPTs shall be subject to disciplinary measures in accordance with the Company's Code of Conduct and relevant corporate governance policies, without prejudice to the applicable legal remedies which the Company may avail.

This Policy was approved by the Board of Directors of Prudential Guarantee on November 06, 2017.